HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
London CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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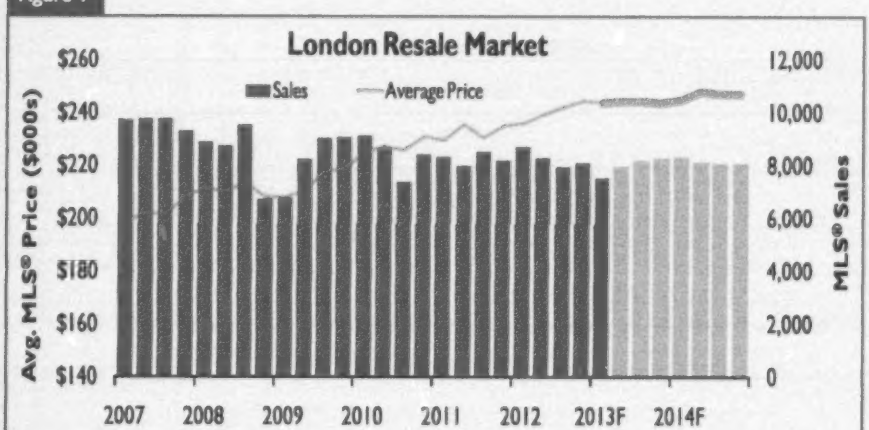
Market at a Glance

- MLS® sales in St. Thomas along with row homes in the City of London will perform well by virtue of their affordability.
- Starts will be slower on less high-rise activity although row home starts will post gains.
- Growth of export-related manufacturing positions and gains in the service sector will be the source of job growth through 2013.

Figure 1



Source: CREA (MLS®), CMHC forecast. Note: Sales are seasonally adjusted and are multiplied by 4 to show an annual rate. Prices are seasonally adjusted. MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

The forecasts included in this document are based on information available as of April 26, 2013.

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Resale Market

Opposites attract: high-end sales and more affordable options expected to do well.

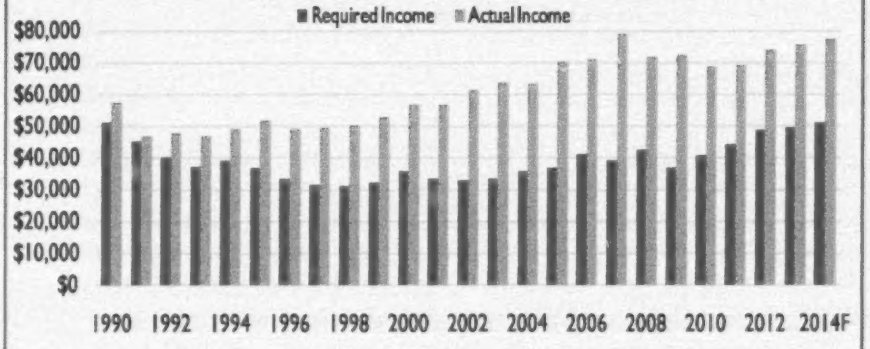
MLS® sales are forecast to total 8,025 in 2013. As expected, 2013 started out slowly with a soft first quarter although London fared slightly better than did Ontario on average. Sales will gradually improve through the year with stronger activity coming in the third and fourth quarter as a result of increased confidence in the marketplace due to employment gains in export related sectors in the latter half of 2013 which will slow out-migration of 25-44 year-olds.

Price growth in 2013 will be slower than in 2012 as a market in balance will limit supply and demand driven price pressure. However, compositional effects[1] will continue to affect prices throughout the year. The forecast includes this consideration although upside price risk exists should high-end sales continue to drive transactions through the year.

MLS® sales in St. Thomas posted strong growth through the first part of the year. With the average single-detached home in St. Thomas selling at a 30 per cent price discount compared to the City of London, it will continue to be an attractive option for price-sensitive consumers through 2013, a year where average wage gains will not be as strong as in 2012. Row home sales in London East also posted growth in the first quarter. Over 50 per cent of households in London are one and two person households. The pace of formation of these smaller households is expected to increase through 2013 leading to strong performance for row home sales as they are an attractively priced option and are appropriately sized for smaller households.

Figure 2

London CMA - Actual to Required Income



Source: CMHC, Statistics Canada, CREA. *Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage Carrying costs are calculated based on 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization for a mortgage loan.

On average, affordability will remain strong as incomes grow at a slightly faster pace than the average MLS® price. Although London is classified as an affordable market, homes in the lower price ranges of MLS® sales will continue to do well for the above noted reasons.

New Home Market

Apartment starts to slow although row home starts will gain momentum

Starts in 2013 will be slower than 2012, largely on account of fewer apartment starts as compared to 2012. Single-detached home starts will slow through 2013 as some potential homebuyers will sit on the sidelines for the time being to see how employment and wage growth unfold. Longer-term demographic trends leading to the formation of more small households will gradually lead to increased interest in higher-density forms of housing. That being said, single-detached homes continue to be the favoured housing type in London for the foreseeable future. The average new single-detached home price will continue to increase through 2013. Total starts in 2014 will be higher than the 2013 result as employment and confidence in the local economy and marketplace continue to improve.

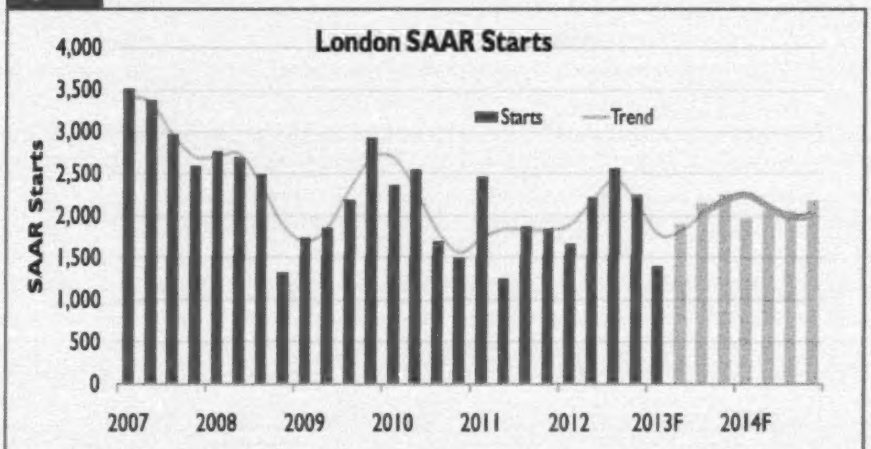
Strong apartment start activity in the CMA during 2012 will lead to fewer apartment starts through 2013. The majority of units started in 2012 are still under construction. As some of these units are completed through 2013, the increased supply of

[1] Compositional effects are changes in the average as a result of changes to the proportional number of homes sold at given price points (e.g., proportionally more sales of higher-priced homes pulls up the average price). Compositional effects do not reflect general trends in the housing market.

units, both rental and condominium, will temporarily slow apartment start activity as the units are filled, however, many projects are in the pipeline indicating that developers are confident about longer-term demand for high-rise apartments in London. Overall vacancy rates will decline as youth employment improves and demographic factors continue to be supportive of high-density starts. Condominium units have become an important part of the apartment market and will continue to be in the future.

Row home starts will post moderate growth. Going forward, row homes fit a number of criteria that will increase their popularity. Row homes are affordable, appropriately sized and manageable for smaller households and the smaller footprint requirement per unit enables infill development in close proximity to amenities. The increase in row home activity will be gradual as row homes gain market acceptance and grow in terms of their proportion of starts.

Figure 3



Source: CMHC forecast. Starts are seasonally adjusted and are multiplied by 4 to show an annual rate.

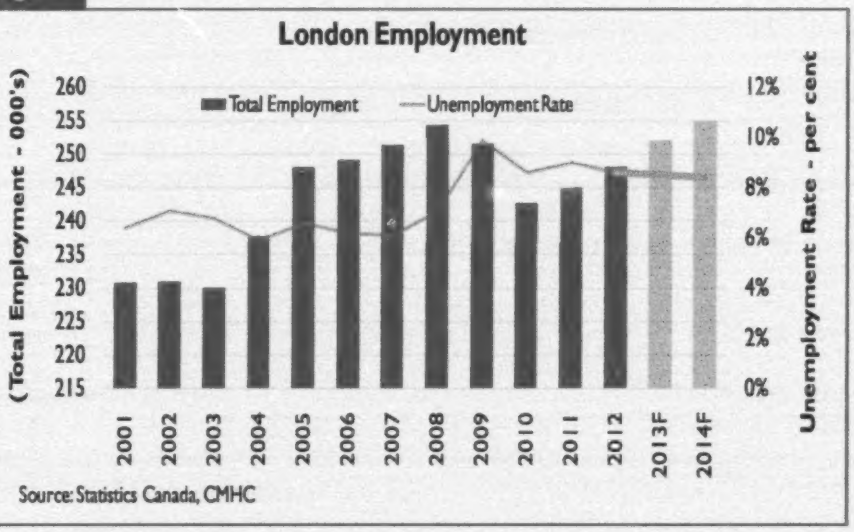
Local Economy

Closer to home, employment gains will help 25-44 year olds stay in London

Job gains in 2013 in London will primarily occur in export dependent manufacturing and the service sector. Economic growth in the United States will translate into increased demand for goods manufactured in South-western Ontario. Although some slack remains in London's manufacturing sector, increased demand will absorb this excess capacity. Improved employment prospects in the manufacturing sector will temper out-migration of 25-44 year olds who would have otherwise sought employment opportunities in western Canada. Immigration will continue to be a primary source of population growth in London through 2013 and 2014. Immigration to Ontario is forecast to grow moderately in both 2013 and 2014, immigration to London tends to follow the same directional pattern as Ontario as a whole so London can be expected to welcome a few more immigrants than in 2012.

Jobs gained through 2012 in higher-wage forms of employment such as in the professional, scientific and technical sector are expected to hold through 2013 with further potential for growth. This is particularly true for the burgeoning IT sector that

Figure 4



Source: Statistics Canada, CMHC

experienced a rough patch but has recovered and is looking to grow. The IT sector is also reliant on the United States and is experiencing some issues related to the availability of specific skills to meet growth opportunities. Such high-wage employment will support higher-end sales through 2013.

The unemployment rate in London is often the focus to discussions related to the local economy. The unemployment rate is the ratio of those unemployed to those employed or actively seeking work. The ratio will decline slightly through 2013 and 2014 due to job creation. However, the labour force participation rate (those working or actively seeking employment relative to the population 15 years and over) is close to the lower post-recession levels which indicates that there are a substantial number of people who are not actively seeking employment. Should a greater proportion of those individuals re-enter the labour force than expected, improvements to the unemployment rate will be dampened.

Mortgage Rate Outlook

Mortgage rates to see modest and gradual increases, but will remain low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Forecast Summary London CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,461	1,176	1,234	1,170	-5.2	1,245	6.4
Multiples	618	572	1,006	780	-22.5	815	4.5
Semi-Detached	20	12	38	25	-34.2	25	0.0
Row/Townhouse	163	177	179	200	11.7	215	7.5
Apartments	435	383	789	555	-29.7	575	3.6
Starts - Total	2,079	1,748	2,240	1,950	-12.9	2,060	5.6
Average Price ($):							
Single-Detached	347,634	347,430	357,513	364,000	1.8	369,000	1.4
Median Price ($):							
Single-Detached	320,000	325,000	329,000	332,500	1.1	335,000	0.8
New Housing Price Index (% chg.)	2.7	0.4	1.3	1.5	-	1.7	-
Resale Market							
MLS® Sales	8,389	8,272	8,272	8,025	-3.0	8,165	1.7
MLS® New Listings	16,171	16,947	16,160	15,775	-2.4	16,000	1.4
MLS® Average Price ($)	228,114	233,731	241,160	243,900	1.1	246,800	1.2
Rental Market							
October Vacancy Rate (%)	5.0	3.8	3.9	3.5	-0.4	3.2	-0.3
Two-bedroom Average Rent (October) ($)	869	881	919	930	-	947	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	244,900	242,900	247,800	252,000	1.7	255,000	1.2
Employment Growth (%)	0.9	-0.8	2.0	1.6	-	1.2	-
Unemployment rate (%)	8.6	9.0	8.6	8.5	-	8.4	-
Net Migration	2,847	2,637	2,598	2,650	2.0	2,725	2.8

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), London & St. Thomas Association of Realtors (LSTAR)®, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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